
RETAIL MARKET ANALYSIS

KYLE BROWN

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The retail market continues to show slow but steady improvement, but remained mostly flat during the fourth quarter. Consumers are beginning to spend again after years of saving, shown by a solid holiday season by retailers. While progress and activity remain moderate by pre-recession standards, most analysts are predicting continued gains and stabilization through 2012, even amid continuous declines in housing prices, poor income performance, and sluggish growth in GDP.

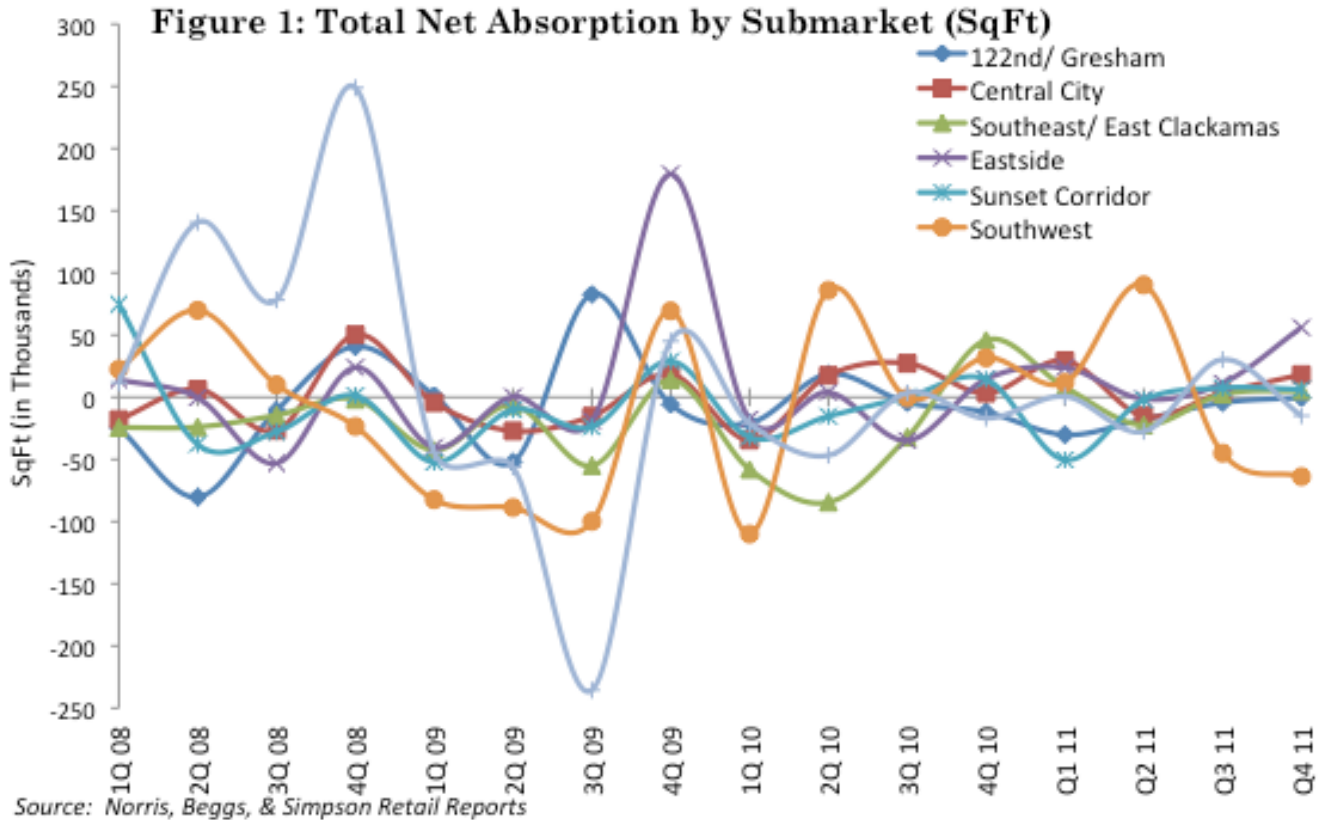
Portland's economic recovery has slowly gained traction with the unemployment situation starting to improve. Oregon's unemployment rate has held steady over the last few quarters ending in December at 8.9%, but still above the national average of 8.3%. Having entered the recession late, job recovery has also been slow to get a toehold, leaving Oregon trailing other states with its resurgence. As could be expected, the Portland MSA has seen greater growth in employment relative to smaller cities and rural areas in Oregon. Grubb & Ellis reports that Portland ranks 5th in "over-the year" employment growth for large metro areas, dropping from 9.8% to 8.4%.

Multiple brokerages report that institutional investors are actively seeking retail centers anchored by well-known grocers. Walmart has opened a new store in Vancouver, and is expanding rapidly into the Portland area with a smaller concept-leasing existing stores rather than new construction. According to Cushman & Wakefield, Walmart has at least 12 transactions closed or underway.

Table 1: Major Retail Lease Transactions, 4th Quarter, 2011

Tenant	Property	SqFt	Submarket
Walmart	2100 SE 164th	40,000	Vancouver
The Lumberyard	Robinwood Shopping Center	40,000	Southeast
Yamaha Sports Plaza	San Rafael Shopping Center	23,695	Gresham

*Source: Portland Business Journal, Norris, Beggs & Simpson, and Cushman Wakefield Q4 2011 Reports

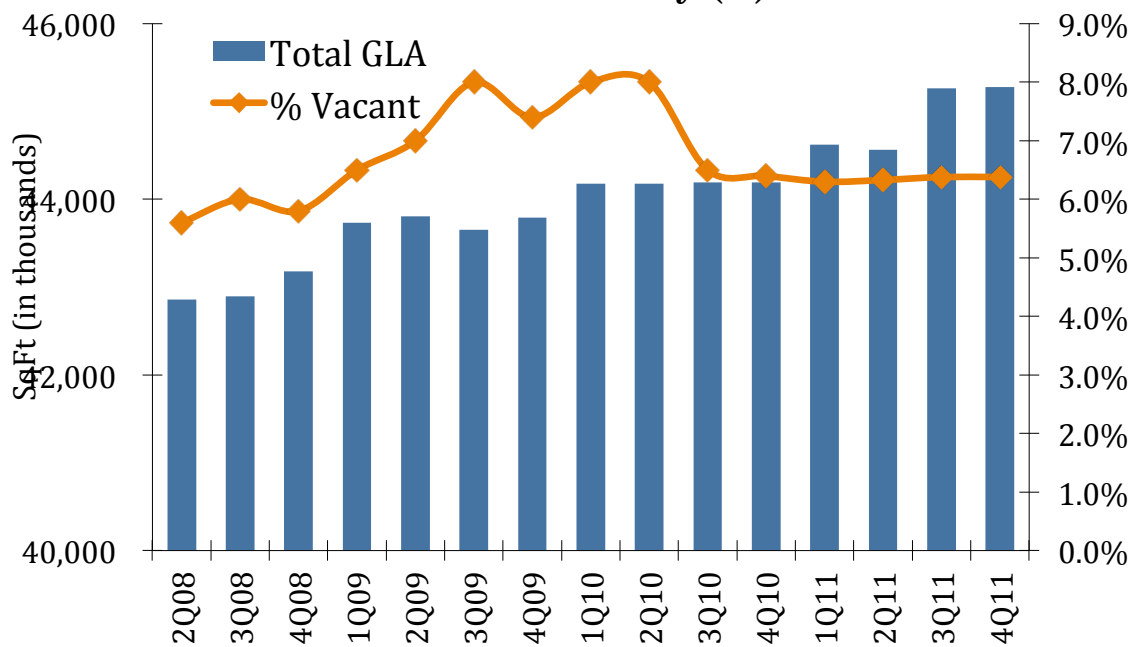


Norris, Beggs and Simpson reports that retail vacancy has remained stable since the Third Quarter of 2010 at around 6.4 percent, alongside a positive but minor net absorption of 7,000 square feet. This coincides with Kidder Matthews reports of a 30 basis point drop to 5.5 percent vacancy in the metro area, though Kidder Matthews reports a more very different absorption total of 256,000 square feet for a total net absorption of over 851,000 square feet in 2011.

The Gresham submarket has continued to carry the highest vacancy rate according to Norris, Beggs & Simpson, up 36 basis points to 9.36 percent in the Fourth Quarter. Vancouver carries the next highest vacancy rate at 8.1%, followed

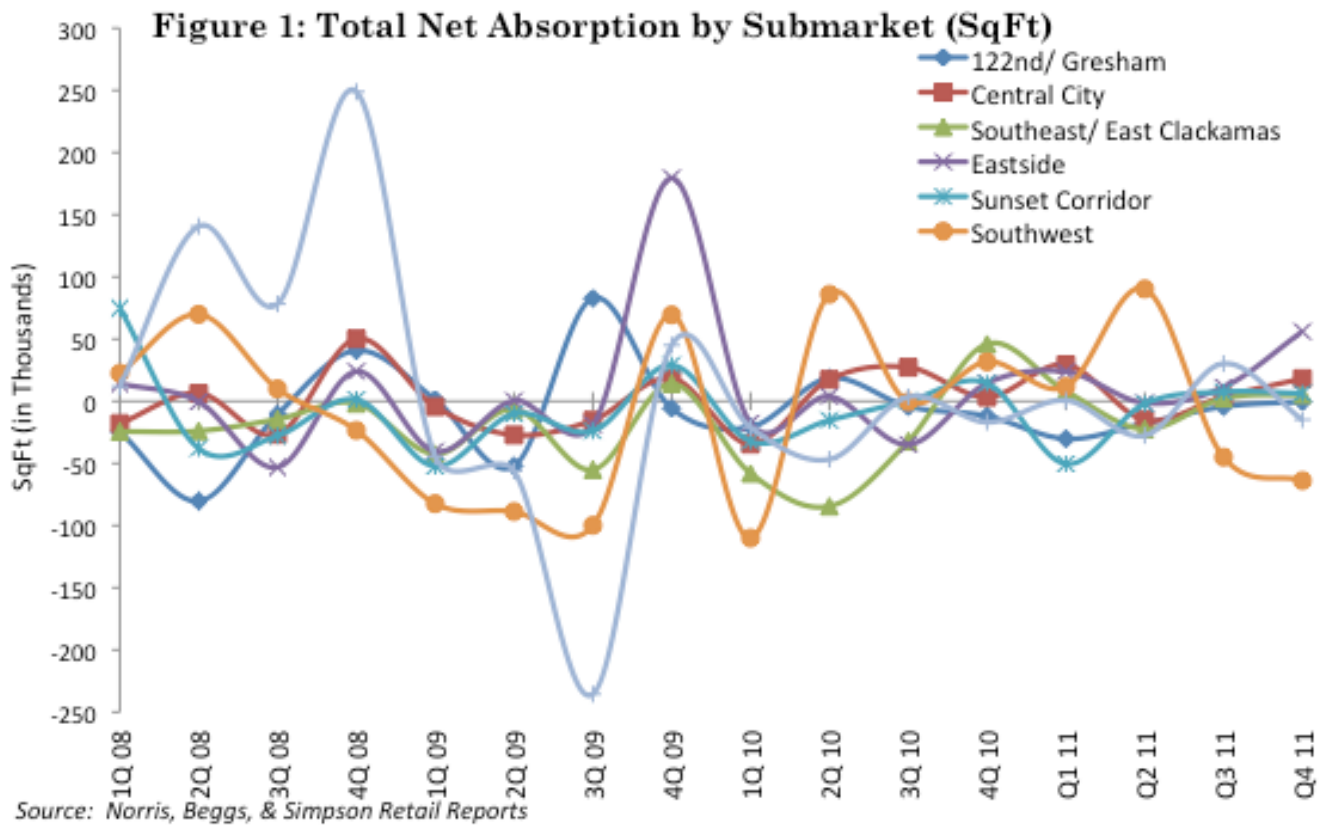
by Central City with a vacancy of 7.5 percent, down 90 points from the Third Quarter. Eastside remains well below all other submarkets, and has continued its drop in vacancy ending the year with a very strong 2.4 percent, according to Norris, Beggs & Simpson. Following a mostly strong year, the Southwest submarket experienced a net loss of 63,849 square feet in the Fourth Quarter, driving the vacancy rate up 60 basis points to 5.61 percent.

Figure 2: Total Gross Leasable Area (GLA) and Vacancy (%)



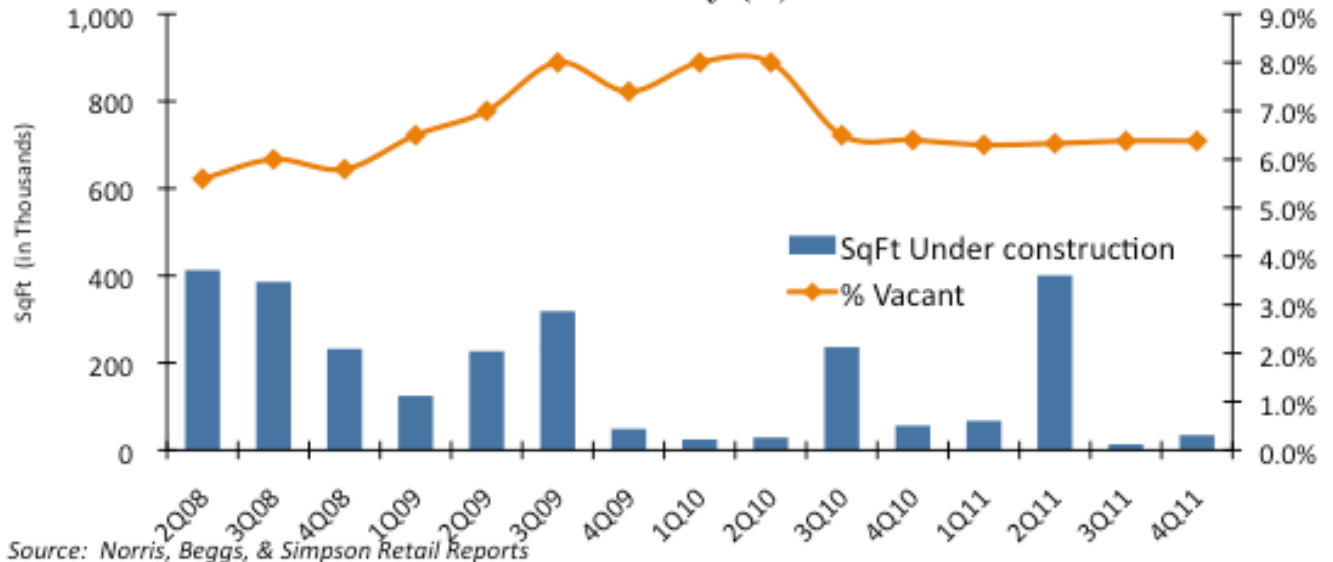
Source: Norris, Beggs, & Simpson Retail Reports

Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at \$15.99/square foot (triple net), a rate that has been steadily dropping since a peak of \$18.14 in Q4 2008, and down nearly \$0.91 from Q4 2010. Kidder Matthews’ notes a consensus between brokerages that landlords have begun reducing concessions, and that this may mark a period of stabilization in the market. Positive signals include significant pre-leasing numbers for new retail centers under construction.

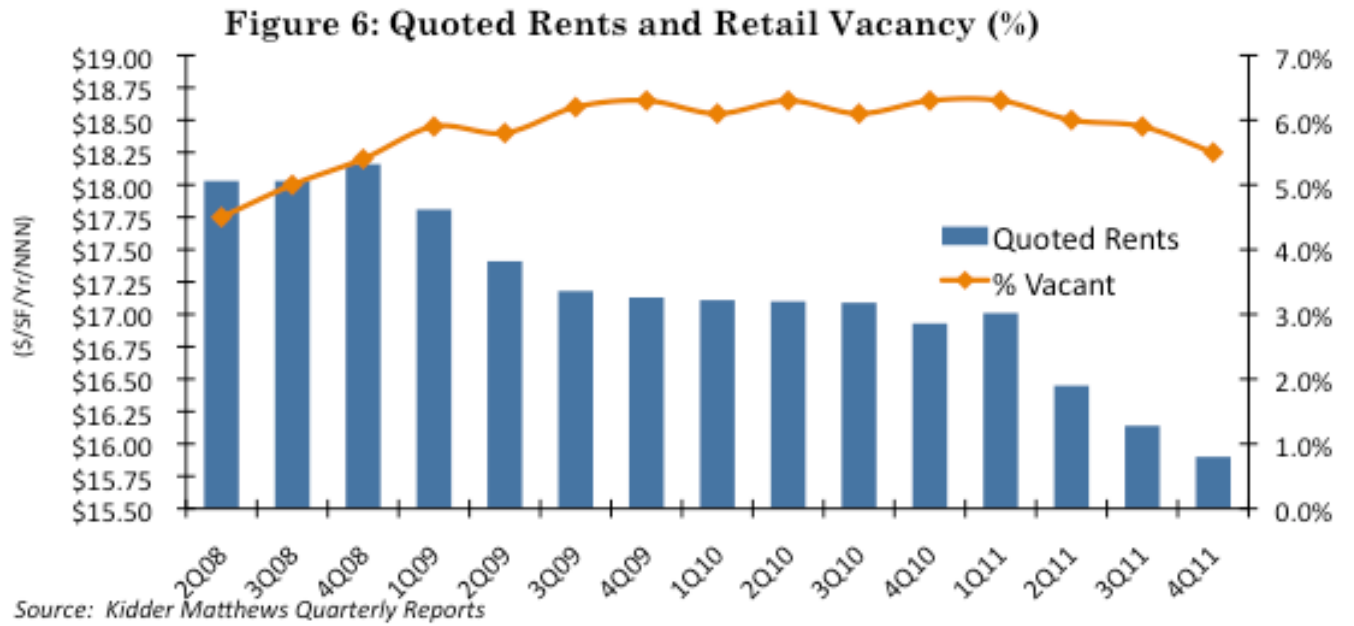


Kidder Matthews notes in their year-end report that big box retailers have been focusing on downtown Portland and designing scaled-down versions of their stores to fit smaller spaces in downtown areas. Target Corp. announced in January it would begin selling limited edition merchandise in smaller stores. The initial such concepts as “The Candy Store” in San Francisco, and the “The Polka Dog Bakery” in Boston, which would surely be a hit in Portland. Some major deals occurred downtown this year, including commitment from Target to move into downtown Portland’s historic Galleria Building, the occupancy of 25,000 s.f. in Pioneer Place by New York-based clothing store H&M, and ICF, an energy, environment, and transportation professional services company, filled the formally vacant Kitchen Kaboodle space. Macy’s is planning a new sidewalk-accessible coffee shop at their downtown store.

Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)



The year brought the closing of the 11 Borders stores in Oregon and Southwest Washington. With the average Borders store at 25,000 square feet, the closure of 11 stores has made a significant dent in overall retail absorption, and could be interpreted as good news that overall vacancy and absorption remain stable after the shock of the loss of a major chain. The Nike Store in downtown Portland closed and was replaced with a newer “brand experience store”, the new concept is designed with modern amenities and a museum like feel.



Oregon’s economy is expected to slowly strengthen and pick up speed by the end of 2012, or early 2013. Portland’s livability will continue to attract a solid inflow of new residents, but job growth in the area will be one of the last segments to rebound. As the Portland/Vancouver MSA population base and employment returns, we can expect to see positive trends in retail growth as services are needed to accommodate the growth. Portland’s retail sector will benefit from the increased demand, and both local and national retailers will expand in the market. ■